

DIOCESE OF TUCSON

INVESTMENT GUIDELINES FOR LONG-TERM INVESTMENTS, ENDOWMENTS, & PENSION PLANS

September 15, 2014

I. Overview and Purpose

The purpose of this Investment Policy Statement (IPS) is to assist The Roman Catholic Bishop of Tucson (Bishop) acting through the Diocesan Finance Council (Council) in effectively supervising, monitoring and evaluating the management of the Long-term Investments, Endowment, and Pension portfolios. The Council will discharge its responsibilities solely in the interest of the Diocese.

The Roman Catholic Bishop of Tucson acting with the advice of the Diocesan Finance Council authorizes the following investment guidelines for this investment portfolio.

The Diocese of Tucson investment guidelines reflect the investment policies, objectives and constraints of the Long-term Investments, Endowment, and Pension portfolios.

This investment policy is intended to:

- *Define and assign responsibilities of all parties;*
- *Establish a clear understanding of investment goals and objectives for long-term, endowment, and pension funds;*
- *Offer guidance and limitations regarding the allowable investments of long-term, endowment, and pension funds;*
- *Establish benchmarks for evaluating investment results;*
- *Establish the relevant time horizon on which the long-term, endowment, and pension portfolios will be managed; and*
- *Comply with fiduciary, prudence and due diligence requirements experienced investment professionals would utilize, and with all applicable laws, rules, and regulations from various local, state, federal and international political entities that may impact the portfolios.*

The Diocese of Tucson is a 501(c) 3 corporation and is exempt from state and federal income taxes under the Internal Revenue Code. Income tax implications, therefore, are not a relevant factor in determining investment policies.

II. Administration

Bishop of the Diocese of Tucson

The specific responsibilities of the Bishop are:

- *To approve the investment objectives, policies and guidelines;*
- *To approve the investment manager(s)*

Diocesan Finance Council

Specific responsibilities of the Council include:

- *Reviewing investment objectives, policies and guidelines and make final recommendations to the Bishop for approval of such guidelines;*
- *Reviewing investment manager(s) and make a final recommendation to the Bishop for approval of the investment manager(s); and*

- *Reviewing investment performance to assure adherence to policy objectives and guidelines.*
- *The Diocesan Finance Council at its discretion may delegate the duties described below to a Subcommittee that is appointed by the Diocesan Finance Council Chair in consultation with the Bishop. The Subcommittee will be comprised of members of the Council as well as other persons who possess the necessary expertise to serve in this capacity. In the absence of a Subcommittee, the Council will perform the duties as described below:*
 - *Assessing the overall tolerance for market value fluctuations and investment time horizons;*
 - *Recommending reasonable and consistent investment objectives, policies and guidelines for the portfolio to the Council;*
 - *Reviewing and responding to the financial needs,*
 - *Reviewing and recommending qualified investment advisors; and*
 - *Reviewing investment performance to assure adherence to policy guidelines and monitoring compliance with investment objectives and guidelines.*

Advisor/Consultant

- *Assisting in the development and periodic review of the investment policy.*
- *Help implement an appropriate asset allocation plan consistent with the investment objectives, time horizon, risk profile, guidelines and constraints outlined in this statement.*
- *Advising the Subcommittee, Council and Bishop of the Diocese of Tucson about the selection of and the allocation of asset categories.*
- *Identifying specific assets and investment managers within each asset category.*
- *Providing “due diligence”, or research on the investment Manager(s).*
- *Monitoring the performance and preparing and presenting appropriate reports.*
- *Recommending changes to this investment policy statement.*
- *Being available to meet with the Subcommittee, Council and Bishop of the Diocese of Tucson at least semi-annually.*
- *Being available at such other times within reason at the Bishops request.*

Investment Manager(s)

Each Investment Manager will have full discretion to make investment buy, sell, and hold decisions for assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement. The investment manager will also report to the Subcommittee (if formed), Council, and Bishop of the Diocese of Tucson on investment performance on no less than a semi-annual basis.

III Goals and Instructions for Long-term Investments, Endowment, and Pension Portfolios

Based on the nature of long-term investments, endowment, and pension portfolios, fundamental risk assessment will be based on a "moderate-risk" philosophy. The investment time horizon is more than 10 years.

Absolute Objectives

The absolute objectives of the portfolio shall be:

- *Capital appreciation with a secondary emphasis on income generation;*
- *To achieve a target rate of return of 6.5% (range of 5% to 7%) per annum over a full market cycle, approximately 5-7 years; and*
- *Diversification will be employed to help manage risk.*

It is expressly understood that market value fluctuations will occur. The total return may not be sufficient to preserve the purchasing power during inflationary periods. Asset allocations under this objective will vary depending on the economic environment as it changes from time to time.

Relative Objectives

- *Generate a return in excess of the passive portfolio benchmark for each asset class (Appendix B). The Committee understands that portfolio restrictions may have a negative impact on performance; and*
- *Exceed the rate of inflation, assumed to be approximately 3% per annum over a 5 - 10 year period.*

Aggregate Asset Allocation Guidelines (at Market Value):

Asset Class	Minimum %	<u>Maximum %</u>
Domestic Common Stock	20%	70%
Domestic Fixed Income	30%	80%
Cash	0%	10%
Foreign securities (Stock/bonds)	0%	10%

Updated Allocations

Over time, it may be desirable to amend the basic allocation. When such changes are made, updates will be considered part of this Investment Policy Statement.

Rebalancing Procedures

From time to time, market conditions may cause the Portfolio's investment in various asset classes to vary from the approved allocation. To remain consistent with the asset allocation guidelines established by this Investment Policy Statement, the Advisor shall periodically review the portfolio and recommend any changes necessary as a result of the portfolio asset

allocations being above/below the target thresholds by more/less than 20% of the broad strategic asset allocation of 70% stock/30% bond and cash.

Acceptable Investment Securities

Acceptable investment securities for the endowment portfolio, subject to restrictions outlined in Section IV, are:

- *Cash equivalents*
- *United States Treasury bills or Money market funds*
- *Commercial paper, bankers' acceptances, bank notes, Euro/Yankee certificates of deposit (investment grade A - 1 or greater)*
- *Fixed income securities*
- *U.S. Treasury Notes and Bonds*
- *U.S. Government Agency Securities*
- *Corporate notes and bonds (Investment Grade Aa2/AA or better) or Mortgage Backed Securities, i.e. FNMA, FHLMC*
- *Foreign Securities, Sovereign & Corporate debt, AA or better.*
- *Equity securities*
- *Large capitalization stocks*
- *Medium capitalization stocks and Small capitalization stocks*
- *International stocks including Emerging market, subject to limit above.*
- *Mutual funds containing some or all of the above allowable assets to include funds investing in bonds with an overall credit rating exceeding investment grade (BBB-).*

Investment Management Selection

Investment managers (including separate account managers and mutual funds) shall be chosen using the following criteria:

- *Past performance, considered relative to other investments having the same investment objective. Consideration shall be given to both performance rankings over various time frames (3, 5, and 7 years) and consistency of performance.*
- *The manager's adherence to investment style and size objectives.*
- *Size of the proposed fund.*
- *Length of time the fund/manager has been in existence and length of time it has been under the direction of the current manager(s) (minimum 2 years) and whether or not there have been material changes in the manager's organization and personnel.*
- *Cost relative to other funds with like objectives and investment styles.*
- *The historical volatility and downside risk of each proposed investment.*
- *How well each proposed investment complements other assets in the portfolio*
- *The current economic environment.*
- *The likelihood of future investment success, relative to other opportunities.*

Withdrawals

If funds are withdrawn from the operational funds accounts, the investment manager may at his/her discretion utilize reverse repurchase agreements to fund the withdrawals if by doing so the overall return to the fund is enhanced. It is anticipated that withdrawals will, in most cases, be funded by sale(s) from the portfolio.

Income will be routinely withdrawn from the account. If income is allowed to remain in the account, it will become part of the investable funds of the account.

Reporting

The investment custodian shall provide the Diocesan Finance Council and/or the Subcommittee with monthly statements for each account held by the Diocese of Tucson. Such reports shall show values for each asset and all transactions affecting assets within the portfolio, including additions and withdrawals.

Investment manager(s) must promptly provide to the Council information about changes in the managers' investment philosophy, management, ownership and key personnel in a timely fashion, not to exceed one month from the date of change. Investment managers are required to give the Diocesan Finance Council and/or the Subcommittee and any consultant designated by them, a semi-annual portfolio review detailing investment performance (time-weighted), strategy and portfolio value.

Investment manager(s) shall be required to participate in meetings to discuss:

- *The managers' investment performance and risk levels in light of the stated policies and objectives;*
- *The managers' views on important developments within the economy and securities markets, and their potential effect on the investment strategy, asset allocation and portfolio performance;*
- *The effects of changes within the managers' organization (ownership, personnel, etc.) on investment philosophy, strategy, and performance;*
- *Proposed amendments to the policies and objectives presented in this statement.*

IV. Restrictions

The investment manager will have full discretion over portfolio investment decisions but will conform to Diocese of Tucson guidelines with the following specific restrictions. If at any time the investment manager considers such restrictions burdensome to their management or injurious to our potential investment returns considering our risk posture, we encourage their immediate communication with the Council.

The investments in the portfolio must comply with Socially Responsible Investment Guidelines issued by the United States Conference of Catholic Bishops (Appendix A). Those guidelines and their restrictions are incorporated by reference into this document.

The following securities and transactions are not permitted for the portfolio without prior approval of the Bishop:

- *Letter stock and other unregistered securities; commodities or other commodity contracts; short sales or margin transactions; uncovered and covered options;*
- *Investments for the purpose of exercising control of management;*
- *Investments in companies that have filed a petition for bankruptcy*
- *The investment manager is prohibited from investing in private placements and from speculating in futures or derivatives*
- *The investment manager is prohibited from speculating in fixed income or interest rate futures or derivatives.*
- *No more than 5% of the market value of the portfolio may be invested in non-U.S. denominated securities without prior approval of the Bishop.*
- *No issues may be purchased with a longer maturity than the maximum maturity in the applicable benchmark index. Duration should be managed to remain within a \pm 25% of the applicable benchmark index*

The following are permitted subject to the guidelines set forth above without prior approval of the Bishop:

- *Domestic equities*
- *Equity holdings may be selected from the New York and American Stock Exchanges or the NASDAQ markets;*
- *Holdings must represent companies meeting a minimum capitalization requirement of \$250 million on the date of purchase;*
- *The cost of an individual security in a portfolio at purchase may not exceed 5% of the total market value of the portfolio. Individual securities in a portfolio must not exceed 10% of the market value of that portfolio.*
- *The market value of the holdings of any one market sector may not exceed more than twice that sector's weighting in the investment manager's selected benchmark. Managers will supply sector breakouts of portfolio holdings using sector classifications from a recognized source such as Wilshire, Russell or S&P.*
- *Domestic fixed income.*
- *Investments in the securities of a single issuer in a portfolio (with the exception of the U.S. Government and its agencies) must not exceed 10% of the market value of the portfolio.*
- *Only corporate or tax exempt debt issues that meet or exceed a credit rating of AA from Standard & Poor's or Aa2 from Moody's may be purchased. (Conflicts with allowing investment grade bonds in mutual funds)*
- *Cash and equivalents*
- *Investment managers may invest in commercial paper, bankers' acceptances, repurchase agreements, Treasury bills, certificates of deposit and money market funds to provide income, liquidity for expense payments, and preservation of the portfolio's principal value. All such purchases must represent maturities of one year or less at the time of purchase.*
- *Commercial paper must be rated A-1 by Standard & Poor's or A-1 by Moody's.*
- *Bankers' acceptances and certificates of deposit should only be purchased from larger, well-capitalized domestic and foreign banks with a minimum of an A rating from one of the major rating agencies.*
- *Uninvested cash reserves should be kept to minimum levels.*

APPENDIX A

SOCIALLY RESPONSIBLE INVESTMENT GUIDELINES

November 12, 2003

Principles for USCCB Investments

Introduction

The United States Conference of Catholic Bishops ("USCCB", "Conference") is called to exercise faithful, competent and socially responsible stewardship in how it manages its financial resources. As a Catholic organization, the Conference draws the values, directions and criteria which guide its financial choices from the Gospel, universal church teaching and Conference statements. In order to function effectively and to carry out its mission, the Conference depends on a reasonable return on its investments and is required to operate in a fiscally sound, responsible and accountable manner. The combination of religious mandate and fiscal responsibilities suggests the need for a clear and comprehensive set of policies to guide the Conference's investments and other activities related to corporate responsibility.

1. Background

The Catholic bishops of the United States have addressed this in the pastoral letter *Economic Justice for All*. The following excerpts from the pastoral letter emphasize three basic themes:

1. *Church as Shareholder and Investor*

"Individual Christians who are shareholders and those responsible within church institutions that own stocks in U.S. corporations must see to it that the invested funds are used responsibly. Although it is a moral and legal fiduciary responsibility of the trustees to ensure an adequate return on investment for the support of the work of the church, their stewardship embraces broader moral concerns. As part owners, they must cooperate in shaping the policies of those companies through dialogue with management, through votes at corporate meetings, through the introduction of resolutions and through participation in investment decisions. We praise the efforts of dioceses and other religious and ecumenical bodies that work together toward these goals. We also praise efforts to develop alternative investment policies, especially those which support enterprises that promote economic development in depressed communities and which help the church respond to local and regional needs. When the decision to divest seems unavoidable, it should be done after prudent examination and with a clear explanation of the motives." (*Economic Justice for All*, 354)

2. *Shareholder Responsibility*

"Most shareholders today exercise relatively little power in corporate governance. Although shareholders can and should vote on the selection of

corporate directors and on investment questions and other policy matters, it appears that return on investment is the governing criterion in the relation between them and management. We do not believe that this is an adequate rationale for shareholder decisions. The question of how to relate the rights and responsibilities of shareholders to those of other people and communities affected by corporate decisions is complex and insufficiently understood. We therefore urge serious, long-term research and experimentation in this area. More effective ways of dealing with these questions are essential to enable firms to serve the common good." (*Economic Justice for All*, 306)

3. *Church as Economic Actor*

"Although all members of the Church are economic actors every day of their individual lives, they also play an economic role united together as Church. On the parish and diocesan level, through its agencies and institutions, the Church employs many people; it has investments; it has extensive properties for worship and mission. All the moral principles that govern the just operation of any economic endeavor apply to the Church and its agencies and institutions; indeed the Church should be exemplary." ("Economic Justice for All," 347) Many dioceses and religious communities have also been seeking to apply these directions through their own policies on corporate responsibility. The USCCB Committee on Budget and Finance has sought a review and updating of these guidelines based on universal Church teachings and USCCB statements and policies. More than a decade ago the Bishops' Conference adopted and began to implement Socially Responsible Investment Guidelines (adopted at Nov.1991 General Meeting and presented in *Origins*, Nov. 28, 1991, Vol. 21. No. 25). The Committee on Budget and Finance and the related Conference staff has carried out these policies, but more comprehensive and clear corporate responsibility guidelines are needed. Until now, the Conference corporate responsibility policies have consisted primarily of exclusions, choosing not to invest in companies that comprise about ten percent (10%) of the S&P 500. Through this current review, the Conference seeks to put in place policies that are broader, more explicit, active, flexible and effective in applying the teaching of the Church to the realities of the market.

2. **Principles of Stewardship**

This current effort to fashion such guidelines is guided by two fundamental and interdependent principles: **Principle 1: The Conference should exercise responsible financial stewardship over its economic resources.** In practical fiscal terms, this means obtaining a reasonable rate of return on its investments. For example, the Conference now expects its managers to perform at least at the level of the market. In some areas the Conference has an actual fiduciary role (e.g., pensions). This requires caution in terms of risks taken with Conference resources. **Principle 2: The Conference should exercise ethical and social stewardship in its investment policy.** Socially responsible investment involves investment strategies based on Catholic moral principles. These strategies are based on the moral demands posed by the virtues of

prudence and justice. They recognize the reality that socially beneficial activities and socially undesirable or even immoral activities are often inextricably linked in the products produced and the policies followed by individual corporations. Given the realities of mergers, buyouts and conglomeration, it is increasingly likely that investments will be in companies whose policies or products make the holding of their stock a "mixed investment" from a moral and social point of view. Nevertheless, by prudently applying traditional Catholic moral teaching, and employing traditional principles on cooperation and toleration, as well as the duty to avoid scandal, the Conference can reflect moral and social teaching in investments.

3. Strategies

These two major principles work together to encourage the Conference to identify investment opportunities that meet both our financial needs and our social criteria. These principles are carried out through strategies that seek: 1) to avoid participation in harmful activities, 2) to use the Conference's role as stockholder for social stewardship, and 3) to promote the common good. Briefly, these three approaches may be described as follows:

1. *Do no harm (avoid evil):*

This strategy involves two possible courses of action: 1) refusal to invest in companies whose products and/or policies are counter to the values of Catholic moral teaching or statements adopted by the Conference of bishops; 2) divesting from such companies. The decision to divest, or to refuse to invest, would be based on the principle of cooperation and the avoidance of scandal. It would have to be done prudently, with care taken to minimize the financial impact and possible other negative consequences. In some cases, Conference policy may not absolutely require divestment, but significant Conference investments in these areas might cause confusion or scandal (e.g., heavy investment in conventional military weapons producers, gambling stocks, etc.). In these cases, prudence would be the guiding principle.

2. *Active Corporate Participation.*

Given the clear teaching of *Economic Justice for All*, it seems appropriate for the Conference to adopt a strategy of active corporate participation with regard to its stock holdings. Under this approach the Conference will seek to exercise its normal shareholder responsibilities, especially casting informed votes on proxies and shareholders' resolutions in accord with Conference policies. It should be noted that failure to vote in such situations, or assigning proxies to management, is effectively counted as a vote for current management and the status quo. In the future the Conference should vote its proxies and use its opportunities as a shareholder to support policies in accord with its values and oppose those in conflict with them, within the limitations discussed below. This strategy involves actively using the Conference's position as shareholder to influence the corporate culture and to shape corporate policies and decisions. These activities could include dialogue with corporate leadership, initiating or

supporting shareholder resolutions, and working with various religious and other groups who are working for corporate responsibility, writing letters to corporate executives and board members to advocate specific steps or to support or raise objections to a corporation's activities or policies. This approach could also enable the Conference to deal effectively with the reality of "mixed investments." One way to be a socially responsible investor is to set limits for corporations engaged in questionable or objectionable activities, to hold a minimal position in those companies that fall under the threshold, and then to use one's position as shareholder to work actively to influence or redirect the activities or policies of the corporation toward activities and policies which are socially beneficial and serve the common good. Investments of this type may be tolerated, after careful application of the principle of cooperation and the duty to avoid scandal, so long as the Conference engages in active participation and there is a reasonable hope of success for corporate change.

3. *Positive Strategies ("Promote the Common Good")*

. These strategies involve at least two possible courses of action: 1) supporting policies and initiatives in companies owned by the Conference that promote the values of Catholic moral and social teaching or positions advocated by Conference statements while earning a reasonable rate of return; 2) investments that promote community development, which, in some cases, may result in a lower rate of return, but which nevertheless are chosen because they give expression to the Church's preferential option for the poor or produce some truly significant social good. In the first case, the Conference can support companies and financial institutions which, in addition to their fiscal merits and investment advantages, have strong records in such areas as labor relations, affirmative action, affordable housing, (for example, market-rate certificates of deposit in institutions with special programs for low cost housing, or common stocks of companies that produce socially superior products and perform well in the market, etc.). In the second case, the Conference already has positive experience with community development investments through the Catholic Campaign for Human Development ("CCHD") Given the purpose of the funds which the Conference holds, and, in some cases, its fiduciary responsibilities, opportunities for investing in community development initiatives with lower rates of return will probably be limited to CCHD's efforts or other special initiatives.

4. **Financial Impact**

The experience of the Conference has been that there has not been a negative impact on the financial return of the Conference's investments since these Socially Responsible Investment Guidelines have been in place. When the guidelines were put into place and in our review, the Conference consulted with advisors and groups who have extensive experience in managing funds under these kinds of policies. Each of them presented evidence that their restricted funds had performed better than or at the level of the

market as a whole. Theoretically, a corporate responsibility program that precluded investment in a significant segment of the market would reduce the options available to the portfolio management and could negatively impact performance. Since the market is so large, every investor selects some stocks and avoids others, using a variety of financial and other evaluative financial criteria. The addition of the ethical criteria is an extension of this process. Some argue that further limiting investor options reduces flexibility, can distort market choices and could negatively impact financial return. Others argue that the market is so large and varied that ethical criteria do not unduly inhibit investor choice, and there are ample options available to a capable and skilled advisor. They also argue that there are many well-run and profitable companies that practice corporate responsibility. In fact, they suggest that in today's environment of increased regulation and social concern, those companies with good records in these areas often perform better than their counterparts. It is not possible to predict future results from past experience; therefore the financial impact of these policies needs to be continuously monitored.

5. Conference Directions

In carrying out these strategies the Conference will be required to strengthen its capacity in several areas:

1. Corporate Awareness

The Conference will have to build on its current efforts and monitor more closely how Catholic teaching and Conference policy are advanced and undermined in the marketplace and by corporate actions. It will need to make use of the growing resources that regularly monitor corporate responsibility issues and stay in touch with networks of others who share similar concerns. In addition, the Conference ought to subscribe to the publications of groups that offer research, advice, and assistance in the area of corporate responsibility.

2. Investment Guidance

The Conference will have to continue to work closely with its investment advisors, to clearly articulate its goals and policies in this area and assist them in carrying them out. A tool that has proven useful for others is a set of instructions for voting proxies on issues of concern to the client. The Conference needs investment advisors who have shown themselves to be sympathetic, skillful and successful in carrying out an effective investment program within these kinds of constraints.

3. Prudence/Common Sense

Our work with investment advisors and others interested in corporate responsibility will require both prudence and common sense in carrying out these policies. The basic direction is set by Conference policies. The strategies employed and their scale, timing and pace will depend on the considered

judgments of the Committee on Budget and Finance, USCCB staff and advisors.

4. *Limitations*

We seek to implement these guidelines without new investments in staff. In carrying them out, they may need to be phased in over time. It will be necessary to focus our efforts on a few areas at a time rather than trying to implement in a sweeping way a comprehensive set of policies. Clearly, this task will require additional attention from the Committee on Budget and Finance and its related staff, as well as other Conference staff with expertise in related areas (e.g., Doctrine, Pro-Life, Social Development and World Peace, etc.).

6. **Summary**

In seeking to carry out these continuing principles and directions, the Conference has both limitations and opportunities. Its corporate responsibility policies need to reflect both the financial and fiduciary responsibilities of the Conference, and the mandate to apply our traditional social teaching in the world of investments. The Conference cannot preach to others what it does not practice itself. The Committee on Budget and Finance seeks to pursue these policies in good faith, recognizing the limitations of staff and other committee commitments. The Committee seeks to pursue these policies not in any spirit of confrontation or conflict, but in a sincere desire to work for a more just society and more peaceful world through the careful stewardship of the limited resources of the Conference. In this modest, but hopefully useful effort, the Committee on Budget and Finance seeks both to protect the financial resources of the Conference and to exercise its responsibilities as an investor to advance in a small way the values of the faith. While recognizing the complexity and challenge of this exercise of faithful stewardship, the Committee is convinced that the Conference cannot fulfill its responsibilities without a clear commitment to socially responsible investing.

USCCB Investment Policies

Introduction

The USCCB investment policies cover the following areas: protecting human life; promoting human dignity; reducing arms production; pursuing economic justice; protecting the environment, and encouraging corporate responsibility.

Each policy recommendation is presented according to the following format:

1. One or more statements of Catholic teaching or Conference policy on the topic drawn from a pastoral letter or other documents adopted by the bishops
2. A general statement of policy or policies to guide the investment activities of the Conference

3. In certain areas, a series of options that are based on the principles as noted beginning on page 1

1. Protecting Human Life

"Life in time, in fact, is the fundamental condition, the initial stage and an integral part of the entire unified process of human existence. It is a process which, unexpectedly and undeservedly, is enlightened by the promise and renewed by the gift of divine life, which will reach its full realization in eternity (cf. 1 Jn 3:1-2). At the same time, it is precisely this supernatural calling, which highlights the relative character of each individual's earthly life. After all, life on earth is not an "ultimate" but a "penultimate" reality; even so, it remains a sacred reality entrusted to us, to be preserved with a sense of responsibility and brought to perfection in love and in the gift of ourselves to God and to our brothers and sisters." (*Pope John Paul II, The Gospel of Life (Evangelium vitae)*, no. 2; 1995. "Human life is sacred because from its beginning it involves 'the creative action of God', and it remains forever in a special relationship with the Creator, who is its sole end. God alone is the Lord of life from its beginning until its end: no one can, in any circumstance, claim for himself the right to destroy directly an innocent human being." (*Congregation for the Doctrine of the Faith, Donum vitae*, no. 5 and *Pope John XXIII's encyclical, Mater et magistra*)

1. Abortion

"...we proclaim that human life is a precious gift from God; that each person who receives this gift has responsibilities toward God, self, and others; and that society, through its laws and social institutions, must protect and nurture human life at every stage of its existence. These beliefs flow from ordinary reason and from our faith's constant witness that 'life must be protected with the utmost care from the moment of conception' (**Pastoral Constitution on the Church in the Modern World, no. 51**)--a teaching that has been a constant part of the Christian message since the apostolic age." (**U.S. Catholic Bishops, Pastoral Plan for Pro-Life Activities: A Campaign in Support of Life, pp 1-2, November 2001.**) "At this particular time, abortion has become the fundamental human rights issue for all men and women of good will. The duty to respect life in all its stages and especially in the womb is evident when one appreciates the unborn child's membership in our human family, and the grave consequences of denying moral or legal status to any class of human beings because of their age or condition of dependency..." (**Resolution on Abortion, November 7, 1989**) **Policy** In view of the nature of abortion, the investment policy of the USCCB should remain as it is, namely, *absolute exclusion* of investment in companies whose activities include direct participation in or support of abortion. Direct participation in abortion may include, but not be limited to, companies involved in the manufacture of abortifacients and publicly held health-care companies that perform abortions when not absolutely required by federal or state law. *Additional Policy Recommendation* The Conference will consider supporting shareholder resolutions on abortion-related issues when deemed appropriate.

2. Contraceptives

"The Church...teaches that each and every marital act must of necessity retain its intrinsic relationship to the procreation of human life." (**Paul VI, *Humanae vitae*, n.11**) "In contraceptive intercourse the procreative or life-giving meaning of intercourse is deliberately separated from its love-giving meaning and rejected; the wrongness of such an act lies in the rejection of this value." (***To Live in Christ Jesus: A Pastoral Reflection on the Moral Life*, NCCB, November 11, 1976, n. 46.**) **Policy** In view of the Church's clear teaching on the immorality of contraceptive intercourse, the USCCB will not invest in companies that manufacture contraceptives or derive a significant portion of its revenues from the sale of contraceptives, even if they do not manufacture them.

3. Embryonic Stem Cell/Human Cloning

"No objective, even though noble in itself, such as a foreseeable advantage to science, to other human beings or to society, can in any way justify experimentation on living human embryos or fetuses, whether viable or not, either inside or outside the mother's womb...To use human embryos or fetuses as the object of instrument of experimentation constitutes a crime against their dignity as human beings having a right to the same respect that is due to the child already born and to every human person." (**Congregation for the Doctrine of the Faith, *Donum vitae*, no. 4.**) "[The] evaluation of the morality of abortion is to be applied also to the recent forms of intervention on human embryos which, although carried out for purposes legitimate in themselves, inevitably involve the killing of those embryos. This is the case with experimentation on embryos..." (**Pope John Paul II, *Evangelium vitae*, no. 63.**) "...attempts or hypotheses for obtaining a human being without any connection with sexuality through 'twin fission,' cloning or parthenogenesis are to be considered contrary to the moral law, since they are in opposition to the dignity both of human procreation and of the conjugal union." (**Sacred Congregation for the Doctrine of the Faith, *Donum vitae*, no. 6**) "It is immoral to produce human embryos destined to be exploited as disposable 'biological material.'" (***Donum vitae*, no. 5**) **Policy** The USCCB will not invest in companies that engage in scientific research on human fetuses or embryos that (1) results in the end of pre-natal human life; (2) makes use of tissue derived from abortions or other life-ending activities; or (3) violates the dignity of a developing person. Specific activities covered by the policy will include:

1. Embryonic stem cell research (ESCR);
2. Fetal tissue research or stem cell research derived from embryos; and
3. Human cloning.

Because this field of research is dynamic, new forms of research, or products and services derived from such research, will be evaluated on a case-by-case basis.

2. Promoting Human Dignity

1. Human Rights

"Promotion of the full complement of human rights and religious liberty has been and remains a central priority for our conference...the maintenance of peace and the progress of authentic democracy in the world will require enhancing the priority in US foreign policy of human rights, especially of the poor, women and vulnerable children, and improving international arrangements for their enforcement." (*The Harvest of Justice Sown in Peace, 1993*) "In each of these countries, foreign corporations-American, European, Asian, and others reap large profits from diamonds and oil while too often demonstrating little concern for the negative impact their activities may have on peace stability, human rights, and the environment. As part of this exchange for natural resources, individuals, multinational corporations, and foreign governments have provided arms to African governments and non-governmental entities resulting in further instability and deeper human suffering." (*A Call to Solidarity with Africa, p. 17*) "Catholics managing U.S. and multinational corporations bear a special responsibility in the exercise of their professional obligations, particularly where the activities of their corporations might exacerbate conflict, corruption, human rights abuses, and environmental degradation in Africa. They could play a central role in helping to promote prosperous and just economics in Africa." (*A Call to Solidarity with Africa, p. 30*) **Policy** USCCB will actively promote and support shareholder resolutions directed towards protecting and promoting human rights. For example, USCCB could join efforts to influence corporations that are engaged in extractive industries or are operating in countries with significant human rights concerns. *Additional Policy Recommendations* USCCB will use selected shareholder resolutions and other means to encourage companies to provide sufficient wages, working conditions and other social benefits that enable their employees and families to meet basic human needs. USCCB will seek means to encourage efforts by companies to promote a respect for fundamental human rights, especially in those countries in which these companies operate that have documented practices that deny or violate the human rights of their citizens.

2. Racial Discrimination

"Discrimination based on the accidental fact of race or color, and as such injurious to human rights regardless of personal qualities or achievements, cannot be reconciled with the truth that God has created all men with equal rights and equal dignity." (**Discrimination and Christian Conscience, n. 11.**) "Racism is a sin: a sin that divides the human family, blots out the image of God among specific members of that family, and violates the fundamental human dignity of those called to be children of the same Father." (**Brothers and Sisters To Us, n. 9.**) "Discrimination in job opportunities or income levels on the basis of race, sex, or other arbitrary standards can never be justified."

(Economic Justice For All, n. 73.) Policy USCCB will divest from those companies whose policies are found to be discriminatory against people of varied ethnic and racial backgrounds that have been historically disadvantaged.. *Additional Policy Recommendations* USCCB will actively promote and support shareholder resolutions directed towards equal opportunities for minorities. USCCB as a shareholder will actively work for the inclusion of minorities on corporate boards.

3. **Gender Discrimination**

"Since women are becoming ever more conscious of their human dignity, they will not tolerate being treated as mere material instruments, but demand rights befitting a human person both in domestic and public life." (**Pope John XXIII, *Pacem in terris*, n. 41**) "Forms of social or cultural discrimination in basic personal rights on the grounds of sex, race, color, social conditions, language or religion must be curbed and eradicated as incompatible with God's design." (***Gaudium et spes*, n. 29.**) "We also urge that women should have their own share of responsibility and participation in the community life of society and likewise of the Church." (**1971 Synod of Bishops, *Justice in the World*, III/4.**) "The concrete and historical situation of women...is weighed down by the inheritance of sin This inheritance is expressed in habitual discrimination against women in favor of men." (***Mulieris Dignitatem*, n. 14**) "Vigorous action should be undertaken to remove barriers to full and equal employment for women" (***Economic Justice for All*, n. 199.**) **Policy** The USCCB will divest from those companies whose policies are found to be discriminatory against women. *Additional Policy Recommendations* The USCCB will direct its investment advisors to invest in companies that actively promote corporate policies on equal pay and promotion opportunities for women, and accommodation of legitimate family needs. The USCCB will exercise its responsibility as shareholder to promote the active participation of women in the life of the company, particularly in terms of policy and decision-making, and inclusion in corporate leadership positions.

4. **Access to Pharmaceuticals (e.g. HIV/AIDS)**

"Most [Africans] lack access to health services or safe drinking water. Malaria, tuberculosis, HIV/AIDS, and other communicable diseases threaten to wipe out as much as one-quarter of the populations of some African countries over the next twenty years." (***A Call to Solidarity with Africa*, p. 13**) We also urge the international community and major pharmaceutical companies to respond more effectively to the needs of AIDS patients in poor countries "so that these men and women, tired in body and soul, may have access to the medicines they need." (***A Call to Solidarity with Africa*, p. 21**) **Policy** USCCB will encourage companies to undertake or participate in programs designed to make life-sustaining drugs available to those in low-income communities and countries at reduced, affordable prices, consistent with our Catholic values. *Additional Policy Recommendations* USCCB will actively encourage and support

shareholder resolutions directed towards making life-sustaining drugs more available and affordable to low-income communities and nations.

5. **Curbing Pornography**

"Pornography itself, which denies the dignity which God gives each human being. This kind of 'entertainment'...blocks the moral and emotional development of those who are lured into its use...At this level we are dealing with what is usually referred to in legal terms as obscenity and indecency." "*Soft-core* pornography (sometimes described as *erotic* rather than *obscene*) which is readily available in several forms. Some R-rated movies [which] are only marginally less offensive than X-rated films." "Material which, while not usually identified as either *hard core* or *soft core*, is disturbing because it seems to pervasively present, offering portrayals of sex in a frivolous and titillating manner." (*Renewing the Mind of the Media*, pg. 109)

Policy The USCCB will not invest in a company that derives a significant portion of its revenues from products or services intended exclusively to appeal to a prurient interest in sex or to incite sexual excitement. These would include, but not be limited to, sexually explicit (X-rated) films, videos, publications, and software; topless bars and strip clubs; and sexually oriented telephone and Internet services. *Additional Policy Recommendation* The USCCB will promote and support initiatives, including in some cases, shareholder resolutions, to promote responsible and family-oriented program content development by media companies.

3. **Reducing Arms Production**

1. **Production and Sale of Weapons**

"While extravagant sums are being spent for the furnishing of ever new weapons, an adequate remedy cannot be provided for the multiple miseries afflicting the whole modern world. Disagreements between nations are not really and radically healed. On the contrary, other parts of the world are infected with them Therefore, it must be said again: The arms race is an utterly treacherous trap for humanity, and one which injures the poor to an intolerable degree." (*Gaudium et Spes*, n. 81) "The serious distortion of national economic priorities produced by massive national spending on defense must be remedied. Clear-sighted consideration of the role of government and the economy shows that the government and the economy are already closely intertwined through military research and defense contracts. Defense-related industries make up a major part of the U.S. economy and have intimate links with both the military and civilian government; they often depart from the competitive model of free-market capitalism. Moreover, the dedication of so much of the national budget to military purposes has been disastrous for the poor and vulnerable members of our own and other nations. The nation's spending priorities need to be revised in the interests of both justice and peace." (*Economic Justice for All*, n. 320) "We do not perceive any situation in which

the deliberate initiation of nuclear warfare on however restricted a scale can be morally justified." (*The Challenge of Peace*, n. 150) **Policy** The Conference, through its investments as well as its advocacy, seeks to discourage any nuclear and conventional arms race and to limit the distortions in the U.S. and global economy resulting from disproportionate military spending. The Conference will, therefore, avoid investment in firms primarily engaged in military weapons production or the development of weapons inconsistent with Catholic teaching on war (e.g., biological and chemical weapons, arms designed or regarded as first-strike nuclear weapons, indiscriminate weapons of mass destruction, etc.) *Additional Policy Recommendation* The Conference will support shareholder actions to limit weapons production, to limit foreign sales of weapons and to convert corporate capacity to non-military uses.

2. **Antipersonnel Landmines**

"Government controls do not absolve those involved in the arms industry of moral responsibility for their decisions to sell arms. They have a moral obligation not only to ensure compliance with export controls, but also to avoid sales that will probably be used for illegitimate purposes or that will threaten stability and peace." We would like to add our voice to the appeals of Pope John Paul II and the growing movement to control and eventually ban antipersonnel landmines. The Holy Father has issued "a vigorous appeal for the definitive cessation of the manufacture and use of those arms called 'anti-personnel'..." (*Sowing the Weapons of War*) **Policy** USCCB will not invest in companies that are directly involved in the manufacture, sale, or use of anti-personnel landmines.

4. **Pursuing Economic Justice**

1. **Labor Standards/Sweatshops**

"If the dignity of work is to be protected, then the basic rights of workers must be respected--the right to productive work, to decent and fair wages, to organize and join unions, to private property and to economic initiative." (*Sharing Catholic Social Teaching*, p. 5) "The attainment of the worker's rights cannot however be doomed to be merely a result of economic systems which on a larger or smaller scale are guided chiefly by the criterion of maximum profit. On the contrary, it is respect for the objective rights of the worker--every kind of worker: manual, or intellectual, industrial or agricultural, etc.--that must constitute the adequate and fundamental criterion for shaping the whole economy, both on the level of the individual society and state and within the whole of the world economic polity and of the systems of international relationships that derive from it." (*Laborem Exercens*, #17) **Policy** USCCB will actively promote and support shareholder resolutions directed towards avoiding the use of sweatshops in the manufacture of goods. *Additional Policy Recommendations* USCCB will promote and support shareholder resolutions to promote generous wage and benefit policies and adequate worker safety guidelines.

2. Affordable Housing / Banking

"We are particularly concerned about the abundant evidence of 'redlining' or disinvestment. . . . Where it exists it must be condemned; discrimination based on geography is as destructive as other forms of discrimination. We must insure fair and equal access to available credit. We urge banks and savings and loan associations to meet their responsibilities in central city areas. We recommend financial institutions which have chosen to intensify programs of investment in these neighborhoods. . . . We also urge individual depositors and those responsible for Church funds to encourage a responsible and sensitive lending policy on the part of the financial institutions which they patronize." (*The Right to a Decent Home: A Pastoral Response to the Crisis in Housing, November 20, 1975, n. 32.*) **Policy** The Conference will not deposit funds in a financial institution that receives less than a "satisfactory" rating from federal regulatory agencies under the Community Reinvestment Act. *Additional Policy Recommendations* The Conference, through private correspondence and appropriate shareholder action, will encourage the financial institutions where it deposits its resources to undertake programs and implement policies to secure an "outstanding" rating under the act. The Conference will communicate, where appropriate, to its financial institutions our support for their positive performance under the Community Reinvestment Act.

5. Protecting the Environment

"Our tradition calls us to protect the life and dignity of the human person, and it is increasingly clear that this task cannot be separated from the care and defense of all creation...We must seek a society where economic life and environmental commitment work together to protect and to enhance life on this planet." "The ecological problem is intimately connected to justice for the poor...the poor suffer most directly from environmental decline..." "Environmental progress cannot come at the expense of workers and their rights." "We ask business leaders and representatives of workers to make the protection of our common environment a central concern in their activities and to collaborate for the common good and the protection of the earth." (*Renewing the Earth, 1991*) **Policy** USCCB investment policy will actively promote and support shareholder resolutions which encourage corporations to act "to preserve the planet's ecological heritage, addressing the rampant poverty in the poorest nations, redirecting development in terms of quality rather than quantity in the industrial world, [and] creating environmentally sensitive technologies." (*Renewing the Earth, 1991*) *Additional Policy Recommendations* USCCB investment policy will encourage policies and business that "undertake reasonable and effective initiatives for energy conservation and the development of alternate renewable and clean energy resources...[and offering] incentives to corporations to reduce greenhouse gas emissions and assistance to workers affected by those policies." (*Global Climate Change, 2001*)

6. Encouraging Corporate Responsibility

"The private sector must be not only an engine of growth and productivity, but also a reflection of our values and priorities, a contributor to the common good. Examples of greed and misconduct must be replaced with models of corporate responsibility." (*A Place at the Table*, 2002) "Ethical responsibility is not just avoiding evil, but doing right, especially for the weak and vulnerable. Decisions about the use of capital have moral implications: Are companies creating and preserving quality jobs at living wages? Are they building up community through the goods and services they provide? Do policies and decisions reflect respect for human life and dignity, promote peace, and preserve God's creation? While economic returns are important, they should not take precedence over the rights of workers or protection of the environment." (*Everyday Christianity*, p. 6) **Policy** USCCB will encourage companies to report on social, environmental, as well as financial performance. *Additional Policy Recommendations* USCCB will actively promote and support shareholder resolutions directed towards adoption of corporate social responsibility guidelines within companies.

Appendix B

PASSIVE PORTFOLIO BENCHMARKS

Market Indices

Large Cap Equities - The Russell 1000 Index consists of the 1,000 largest securities in the Russell 3000 Index, representing approximately 90% of the Russell 3000 total market cap. The Russell 1000 Index is highly correlated with the S&P 500 Index.

Mid Cap Equities - The Russell Midcap Index consists of the smallest 800 securities in the Russell 1000 Index, as ranked by total market capitalization. This index accurately captures the medium-sized universe of securities and represents approximately 30% of the Russell 1000 total market capitalization.

Small Cap Equities - The Russell 2000 Index consists of the smallest 2000 securities in the Russell 3000 Index, representing approximately 10% of the Russell 3000 total market capitalization. This index is widely regarded in the industry as the premier measure of small cap stocks.

Domestic Fixed Income - The Barclay's (Intermediate or Aggregate) Government Corporate Bond Index is composed of all bonds that are investment grade (rated baa or higher by Moody's or bbb or higher by S&P, if unrated by Moody's). Issues must have at least one year to maturity. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indices are rebalanced monthly by market capitalization.

International Equities Developed Countries -- The Morgan Stanley Capital International Europe Australia Far East Index (EAFE) includes over 1,000 securities listed on the exchanges of 20 developed countries in Europe, Australia and the Far East. Calculated in U.S. dollars, on a total return, market value weighted basis, with dividends reinvested before deduction of withholding taxes.

International Equities Emerging Markets - The Morgan Stanley Capital International Emerging Markets Free Index includes securities listed on the exchanges of 25 emerging market countries around the world. Calculated in U.S. dollars, on a total return, market value weighted basis, with dividends reinvested before deduction of withholding taxes.